

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 94-123
(Reopened)

December 19, 1997

PUBLIC UTILITIES COMMISSION
Investigation Into Regulatory
Alternatives for New England
Telephone and Telegraph Company
d/b/a NYNEX

ORDER

WELCH, Chairman; NUGENT and HUNT, Commissioners

I. SUMMARY

In this Order, we describe the procedures we will follow in considering a stipulation filed by certain interested stakeholders as the result of our Inquiry in Docket No. 97-319, *Public Utilities Commission, Proposed Amendment of Chapter 280 to Achieve Parity with Interstate Access Rates by May 30, 1999* (Inquiry Order). We also set forth a series of questions to which Bell Atlantic-Maine (Bell Atlantic) must respond by January 9, 1998.

II. BACKGROUND

A. Docket No. 97-319

On June 13, 1997, we opened Docket No. 97-319, which included both a notice of a proposed rulemaking and notice of a separate inquiry. The purpose of the rulemaking was to amend Chapter 280 to reduce intrastate access rates to interstate access rate levels by May 1999, in accordance with newly-enacted 35-A M.R.S.A. § 7101-B. We adopted that proposed rule on December 3, 1997.

We opened the separate inquiry to determine whether, as a result of the proposed change in access rates, Bell Atlantic's AFOR should be modified to allow Bell Atlantic's rates to change beyond the levels that would otherwise be permitted by the AFOR pricing rules. Bell Atlantic had claimed that reducing the access rates to match interstate access rate levels would result in decreased revenues. We stated if Bell Atlantic believed it needed a waiver of the AFOR's pricing rules because of the decrease in access charge revenues, we would consider whether to open: 1) a comprehensive review of Bell Atlantic's revenue requirements; and 2) a comprehensive review of all the elements of Bell Atlantic's AFOR. In deciding whether to open such

proceedings, we listed nine issues that we would consider exploring in a reopened proceeding. Inquiry Order at 6.

The Commission convened a conference of interested persons on June 26, 1987, where we announced that we would afford interested persons an opportunity to reach a negotiated recommendation to the Commission. The purpose of the negotiations was to determine if interested persons could reach a fair resolution that would avoid litigating the AFOR and Bell Atlantic's revenue requirements. The Commission designated Christopher Simpson, Esq., an independent contractor, to act as a facilitator in the negotiations.

On November 7, 1997, certain interested stakeholders filed a stipulation proposing changes in the AFOR, including a change that would allow Bell Atlantic to phase in a \$3.50 increase in basic rates by May 1999.

On November 24, 1997, we issued an order reopening Docket No. 94-123 so we could consider the stipulation in the context of revising the AFOR. We sought interventions by interested persons and 14 entities have intervened.

III. CRITERIA FOR CONSIDERING THE STIPULATION

The Commission applies at least three criteria when considering whether to approve a stipulation:

1. whether the parties joining the stipulation represent a sufficiently broad spectrum of interests that the Commission can be sure that there is no appearance or reality of disenfranchisement;
2. whether the process that led to the stipulation was fair to all parties; and
3. whether the stipulated result is reasonable and is not contrary to legislative mandate.

See Central Maine Power Company, Proposed Increase in Rates, Docket No. 92-345(II), Detailed Opinion and Subsidiary Findings (Jan. 10, 1995), and Maine Public Service Company, Proposed Increase in Rates, Rate Design, Docket No. 95-052, (June 26, 1996). We have also recognized that we have an obligation to ensure that the overall stipulated result is in the public interest. *See Northern Utilities, Inc., Proposed Environmental Response Cost Recovery, Docket No. 96-678, Order Approving*

Stipulation (April 28, 1997). *Consumers Maine Water Co.*, Docket No. 96-739, Order at 2 (July 3, 1997).

By this Order, we seek information that will inform our decision with regard to whether the stipulation is reasonable, as well as assist us in determining whether the overall stipulated result is in the public interest. To make this determination, we review whether the financial consequences to Bell Atlantic and its customers of the access reduction warrant the increase in basic rates proposed by the stipulation.

As a starting point, we will review the nine issues set out in our June 10 Notice of Inquiry. It is not our intention to fully litigate each issue. Instead, we seek information from Bell Atlantic and other parties that will assist us in establishing a range of possible outcomes for each issue. Therefore, Bell Atlantic is directed to file responses to the questions listed below by January 9, 1998. Any other party that believes it has data relevant to these questions may also respond. Parties will then be afforded an opportunity to file data requests to Bell Atlantic related to their responses to these questions.

IV. QUESTIONS FOR BELL ATLANTIC

1. Stimulation of network usage as a result of access rate reductions.

Please provide the best estimate of elasticities for access services or retail message toll services. Using those estimates, calculate the stimulation and demand that results if intrastate IXCs reduce their rates to interstate levels. Also, estimate the stimulation and demand that occurs if Bell Atlantic reduces its rates to average interstate levels.

2. NYNEX's estimates of the savings resulting from the merger with Bell Atlantic.

In our order approving NYNEX's merger with Bell Atlantic, we found that the costs and benefits of the merger would not occur simultaneously. The evidence at that time showed that "start up" costs to implement the merger would total \$700-\$900 million during the first three years following the merger. We noted that ratepayers were insulated by the AFOR from paying any of those costs. *New England Telephone & Telegraph Company and NYNEX Corp., Proposed Joint Petition for Reorganization Intended to Affect Merger with Bell Atlantic Corp.*, Docket No. 96-388, Order Part II at 9, (Feb. 6, 1997)(Merger Order). We further found that net savings from the merger were not likely until the year 2000. *Id.* Because the Commission will investigate in 2000 whether to continue the AFOR after 2000, we found there would be adequate opportunity for the Commission to incorporate the savings into our decision on continuing the AFOR which is due no later than December 1, 2000. Merger Order at 10. Record evidence from Bell Atlantic in that case was that potential cash savings from the merger were expected to be \$850 million per year (Maine's share, approximately \$6.37 million).

Bell Atlantic should inform the Commission of any changes in the facts on which the Commission based its February 1997 decision and whether the calculation of Maine's share of savings is accurate.

3. Cost of Capital.

Is there any reason to believe that the cost of capital adopted by the Commission in Docket No. 94-254, 12.5%, has changed since the Commission's decision in that case in May 1995? If so, describe the change and basis for the change.

4. Depreciation.

What changes in revenue requirements have occurred since May 1995 due to changes in depreciation? If any occurred, normalize the revenue requirement effect back to Docket No. 94-254 investment and demand levels.

5. Calling Patterns.

Provide the following information about calling patterns and demographics of customers; if data are available, provide separately for small business, residential, and Lifeline customers.

- ♦ What percent of Bell Atlantic customers make no instate toll calls?
- ♦ What percent of Bell Atlantic customers make instate toll calls that total less than \$7.00 per month?

6. Revenue Impact of Separation Changes (Part 36) Involving Other Billing and Collection (OB&C).

Provide the revenue requirement impact of OB&C separation changes and the basis (including workpapers) for the calculation.

7. Payphone Deregulation.

Provide the revenue requirement impact of payphone deregulation and the basis (including workpapers) for the calculation.

8. Revenue Impact of Access Charge Reductions.

Provide estimated values for revenue decreases caused by reductions in access rates to federal levels by May 1999 and the basis for the calculation.

9. Revenue Impact of Basic Rate Changes.

Provide estimates of the increased revenues resulting from the increased basic rate changes proposed in the stipulation and the basis for the calculation.

IV. SCHEDULE

We intend to process the Stipulation on the following schedule:

Jan. 9, 1998	Bell Atlantic (and other parties) file answers to questions
Jan. 16	Data requests due to Bell Atlantic
Jan. 26	Data responses due from Bell Atlantic
Feb. 9	Comments due from parties opposing stipulation
Feb. 18, 19	Hearings - Augusta

Once the record is complete, the Commission will establish a schedule for the remainder of the case and decide expeditiously whether or not to accept the stipulation. The hearings referenced in the Commission's November 24 Order of January 15 and January 16 are canceled and replaced by the February 18 and 19 dates.

V. PETITIONS TO INTERVENE

Petitions to intervene were filed by the following entities and are hereby granted:

AT&T, Maine Association of Independent Neighborhoods (M.A.I.N.), Maine People's Alliance (MPA), MCI Telecommunications Corporation (MCI), Prof. George K. Romoser, the Office of the Public Advocate (OPA), Maine Department of Education, the Maine State Library, Bureau of Information Services, State Planning Office, the Telephone Association of Maine (TAM), Neighborhood Action Coalition of Greater Portland, Sen. Sharon Treat, and the American Association of Retired Persons (AARP).

A copy of the service list containing the names and addresses of the parties is attached to this Order.

VI. PUBLIC WITNESS HEARINGS

The Commission held public witness hearings in Portland (November 24), Lewiston (November 25), Biddeford (November 25), Bangor (December 1) and Augusta (December 2). The December 1st hearing went forward as planned but snowy weather may have limited attendance. Therefore, the Commission will hold another public witness hearing in Bangor on December 22 at 6:00 p.m. at Bangor Civic Center. We recently published notice of this hearing in newspapers and issued a press release.

Dated at Augusta, Maine this 19th day of December, 1997.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Hunt